

Chapter Six: Conclusions and Discussion

Principal Findings

This analysis provides strong evidence that the increase in reported certification-related costs per FSP household, which began in 1995, contributed to the reduction in the error index, i.e., in the weighted sum of positive and negative case error rates. This contribution was not recognized by the previous study of factors affecting payment error rates in the 1990's (Kabbani and Wilde, 2003), which focused on short certification periods, economic conditions, and political conditions. Our results confirm the conclusion of Kabbani and Wilde, and the widespread view in the FSP policy community (e.g., Rosenbaum, 2000), that increase in use of short certification periods also contributed to the downward trend in error rates.

We also find evidence that other changes in the FSP associated substantively or temporally with PRWORA had different effects on States. For the average State, these changes had the effect of increasing the error index, as a result of the reduction in the effect of reported effort on the error index and the introduction of an increase in error rates with the proportion of FSP households receiving TANF. The effect was larger where the percentage receiving TANF was above average and smaller (or even negative) where this percentage was below average. Given the many changes in the FSP and TANF policies and operations of State FSP agencies after the enactment of PRWORA and the lack of State and year-specific data on these changes, we cannot determine whether these effects resulted from PRWORA implementation, FSP error-reduction initiatives, cost allocation changes, or a combination of these factors.

These results imply that, in the post-PRWORA period, States had to spend more effort on certification-related activities than in previous years to achieve a given level of accuracy (relative to the expected level absent a change in effort). Before PRWORA, a 10 percent increase in certification-related effort per FSP household would yield an estimated reduction of 2.76 to 3.77 percent in the positive case error rate, depending on the model used; after PRWORA, the estimated reduction would be 1.32 to 3.42 percentage points. If this is true, it provides a retrospective justification for the dramatic increase in the reported certification-related cost per FSP household between 1994 and 2001. Whether this was in fact the motivation for the trend would require an investigation into budget and management processes beyond the scope of this study.

The results also raise the question of whether States approached a point of diminishing returns in the expenditure of effort to reduce error rates. While the study did not provide clear evidence of this (i.e., a non-linear model did not explain the data better than the linear model), it suggests a need for attention to this possibility. A recent report from the Government Accountability Office shows that payment error rates continued to decline after 2001. On the other hand, the States interviewed for the report described several challenges to error reduction, including the complexity of eligibility rules, the difficulty of preventing and detecting reporting errors by participants, and resource constraints due to States' budget cuts and competing demands on personnel (GAO, 2005).

Limitations of the Study

Perhaps the most important limitation of the study is that reported FSP administrative costs, and thus the measure of effort, are subject to variation in definition and measurement, both over time and among States. Thus, there is some uncertainty about how much of the increase in reported certification-related costs per FSP household during the study period represented an actual increase in resources, both in general and specifically with respect to efforts to prevent and detect errors. A more consistent measure would require the availability of periodic time studies, so that the same activities were measured in the same way throughout the data. It is reasonable to expect, however, that ongoing efforts by FNS and other agencies (such as the USDA Office of Inspector General) have the effect over time of narrowing the differences in measurement of FSP administrative costs among States.

Another key limitation is the lack of data on State FSP policies that might affect error rates. FNS has recently begun publishing data on State choices among the numerous certification policy options (e.g., FNS, 2003). If a sufficient series of these reports became available, it might help identify important policies other than certification period length that affect error rates and the results to be expected with a given level of effort.

The time period covered by the study also limits the conclusions that can be drawn. First, the post-PRWORA period may not have been long enough to differentiate between the transitional effects of PRWORA and FSP changes in the mid-1990's and their long-term effects. Second, changes introduced late in the study period (such as quarterly reporting and adjusted error rates) may not have been implemented long enough to have a discernible impact. Data from later years might help overcome these limitations, but further changes introduced in the 2002 Farm Bill would need to be taken into account as well.

As discussed in Chapter Five, the degree of automation would be expected to affect the relationship of certification effort to the error index, but the study was not able to model this effect. Using the available data on spending for data processing system development and operations, we were unable to establish a clear and plausible empirical relationship to the error index. It is possible, however, that a portion of the effect attributed to certification effort is in fact due to increased automation. If so, then the elasticity of error with respect to effort would overstate the actual reduction in error that a State would achieve by increasing certification effort alone without also increasing the level of automation.

In Chapter Four, it was noted that, at the national level, positive and negative error rates tended to be higher when the number of participating households was higher. Some authors have examined the possibility that error rates affect FSP participation in subsequent periods. Such a relationship would pose an endogeneity problem for the models of error as a function of certification effort.

A review of the relevant findings shows very little evidence that error rates could have any notable effect on the ratio of certification effort to FSP caseload. Ziliak, Gunderson and Figlio (2003) found an effect of the combined payment error rate on the FSP participation ratio (participants per capita) only in static estimates, which they believe were affected by omitted variable bias. Their dynamic models (including lagged caseload, unemployment rates, and employment growth rates) showed no significant effect of error on the participation ratio in the short term or the long term. Furthermore, this paper used the error rate as a proxy for shortened certification periods and related policies

designed to bring down error rates, so the authors did not actually hypothesize that error rates affect participation. Kabbani and Wilde (2003) did hypothesize this effect and control for both the combined payment error rate and certification periods in modeling the FSP participation ratio. They found an effect of the lagged error rate on the FSP participation ratio, but the error rate was not part of their preferred specification. In the model, the coefficient for lagged error rate was 0.0537. This means an increase of 1 percentage point in the total error rate—a substantial amount—produced about a very small increase of 0.05 percentage points in the participation ratio, which averaged 8.5 percent.

The established relationship between reported effort and error rates suggests another interpretation of the correlation of error rates with the FSP participation ratio. If a State's total budget is fixed and the number of FSP households increases, the effort per FSP household falls. The models estimated in this study predict that this change will lead to a rise in the error index, all other things equal.

Another possible objection to the models of reported effort and error is that increased use of short certification periods could affect a State's measured effort per FSP household by reducing the number of participating households. Hanratty (2005) examined the relationship of certification periods and other policies to the probability that income-eligible families participated in the FSP, using Survey of Income and Program Participation (SIPP) data from the 1996 and 2001 panels. The results indicate little reason for concern about the validity of the effort measure. The estimated impacts of short certification periods on participation rates were rather small: an increase of 10 percentage points in the short certification rate for earners would decrease participation rates among eligible families by less than 1 percentage point. (The mean participation rate was 46.8 percent for eligible single-parent families and 21.8 percent for eligible two-parent families.) Furthermore, this relationship does not pose a problem, because we control for the effect of short certification periods in the model. As noted above, this means that the effect of reported effort is conditional on the certification period.

Issues for Future Research

The preceding discussion points to a number of uncertainties that could be addressed through extension of this research to additional years after 2001.

- Additional years of data would help determine whether the affects associated with PRWORA were transient or more long-term.
- Data for later years might allow deeper investigation of the effects of changes that occurred late in the study period (such as adjusting error rates for growth in employed and immigrant FSP households, and reporting options that affect whether an undetected change in circumstances is considered an error).
- Data for 2003 and later years might provide insights into the effects of the quality control reforms enacted in 2002 and the new emphasis on program access.
- Last but not least, analysis of reported costs, effort and errors in 2002 and later years would test whether the patterns of the late 1990's persisted as the FSP caseload increased.

Another, complementary approach to extending this research would be a series of case studies examining the spending, policies, operational challenges, and results of specific States. This approach would provide insights into the relationship of PRWORA implementation, FSP error reduction, process automation, and cost allocation practices.